

## ISSUER COMMENT

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## Berlin Hyp AG - Mortgage Covered Bonds

First German covered bond issuance using blockchain preserves credit characteristics of traditional pfandbriefe

On 2 August, [Berlin Hyp AG](#) (Aa2/Aa2 stable, ba1<sup>1</sup>), a subsidiary of [Landesbank Baden-Württemberg](#) (LBBW) (Aa2/Aa2 stable, baa2), issued the first digital German covered bond using blockchain technology.<sup>2</sup> The use of the technology preserves the credit characteristics of Berlin Hyp's traditional pfandbriefe issuance, while at the same time opening the door to efficiency gains from the new technology.

The pioneering step by Berlin Hyp marks an advancement in the application of blockchain technology for the registration and settlement of digital bonds. The bank issued the digital covered bonds under the newly implemented German Electronic Securities Act of June 2021. This act allows borrowers to use an electronic register, such as a blockchain, as an alternative to issuing a bearer securities certificate. For this transaction, Berlin Hyp used SWIAT, a private blockchain partly owned by lead managers [DekaBank Deutsche Girozentrale](#) (Aa1/Aa1 stable, baa2) and LBBW.

The covered bond will be settled and redeemed using the blockchain although payments will be made off-chain via traditional channels. Additionally, the blockchain will record the registration and transfer of ownership. Also, the cover pool monitor will verify the adequacy of the cover assets for the digital pfandbrief via a signed confirmation that will be uploaded to the SWIAT blockchain and passed on to the registrar for acceptance alongside the terms of the bond.

In our view, the use of blockchain technology does not add materially higher risks compared with traditional issuance. All payments will be processed through traditional channels. Only a limited group of accredited participants can access the platform. A backup of the bondholder list is available for participants to use in case of a system failure. The issuer also has an option to exchange the notes into traditional covered bonds in certain circumstances.

Berlin Hyp engaged DekaBank and LBBW to arrange the note and act as custodians. DekaBank will also manage the crypto securities register. Bankhaus Metzler is an anchor investor.

Other institutions have also been active in the digital bond space. On 18 April 2019, Societe Generale SFH, a covered bond vehicle sponsored by [Societe Generale](#) (A1/A1 negative, baa2), [issued](#) a covered digital bond, while German development bank, [Kreditanstalt fuer Wiederaufbau](#) (KfW, Aaa/Aaa<sup>3</sup>) [issued](#) a digital bond earlier this year. Like Berlin Hyp, these institutions have embraced distributed ledger technology to issue digital bonds, with each bond registered on a blockchain rather than in a central securities depository. However, each institution's approach to implementation varies, demonstrating the evolving nature of digital bond issuances.

Societe Generale SFH, for instance, opted for the Ethereum blockchain for its security token (OFH - obligations de financement de l'habitat), using the [ERC-20 standard](#) and leveraging technology from its subsidiary, Societe Generale – Forge. KfW chose the public Polygon blockchain for its bond tokens, using tokenisation platform developed by Cashlink Technologies GmbH. These choices reflect the diversity of platforms and standards available for digital bond issuances.

## Endnotes

- <sup>1</sup> The ratings shown in this report are the banks' deposit rating, senior unsecured debt rating and Baseline Credit Assessment.
- <sup>2</sup> Blockchain is a type of distributed ledger technology that consists of a list of records, called blocks, that are securely linked together using cryptography.
- <sup>3</sup> The ratings shown are KfW's backed bank deposit rating and backed senior unsecured debt rating.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

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